

Message Text

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71

ACTION EUR-25

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FM AMEMBASSY OTTAWA

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TAGS: EFIN, CA

SUBJECT: CORPORATE TAX CUTS REINTRODUCED

REF: (A) OTTAWA 817 OF 5/8/72; (B) OTTAWA 415 OF 2/19/73

BEGIN SUMMARY. MINFIN TURNER TABLED WAYS AND MEANS MOTIONS IN HOUSE OF COMMONS MAY 29 CONTAINING MUCH- DISCUSSED CORPORATE TAX REDUCTIONS ORIGINALLY INTRODUCED IN MAY 1972 BUDGET (REF A) AND PERSONAL TAX REDUCTIONS ORIGINALLY INTRODUCED IN FEBRUARY 1973 BUDGET (REF B). MEASURES WILL BE COMBINED INTO SINGLE TAX BILL WITH PROVISION FOR PARLIMENTARY REVIEW, EVALUATION AND POSSIBLE REVOCATION OF CORPORATE CUTS IN APRIL 1974. OPPOSITION LEADER STANFIELD, WHO HAD SAID PREVIOUSLY THAT HE WOULD OPPOSE CORPORATE TAX REDUCTIONS IN FORCE BEYOND DECEMBER 31, 1973, LEFT IMPRESSION THAT PCS MAY SUPPORT MEASURE. NDP LEADER LEWIS SAID HIS PARTY WOULD VOTE AGAINST " CORPORATE RIP- OFF" EVEN IF THAT REQUIRED VOTING AGAINST BILL CONTAINING PERSONAL TAX CUTS.
END SUMMARY.

1. IN TABLING WAYS AND MEANS MOTIONS PROVIDING I. A. FOR REDUCTION IN GENERAL CORPORATE TAX RATE ON MANUFACTURING AND PROCESSING INCOME TO 40 PERCENT EFFECTIVE JANUARY 1, 1973 (FROM 49 PERCENT), TURNER STRESSED NEED TO PROTECT INTERNATIONAL COMPETITIVE POSITION
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OF CANADIAN INDUSTRY. HE ADDED THAT HE HAD CAREFULLY FOLLOWED PUBLIC DEBATE ON THE MATTER AND WAS ANXIOUS TO BE RESPONSIVE TO PUBLIC OPINION. HE THEREFORE AMENDED THE INITIAL PROPOSAL (REF A) BY PROVIDING FOR PARLIAMENTARY REVIEW PROCESS WHEREBY CORPORATE TAX REDUCTIONS COULD BE REVIEWED, EVALUATED AND IF NECESSARY, ABOLISHED. (INITIAL PROPOSAL IN MAY 1972 DESCRIBED MEASURES AS " PERMANENT INCENTIVES.") UNDER NEW PROPOSED LEGISLATION, GOC WOULD SUBMIT REPORT TO PARLIAMENT BY APRIL 1, 1974, ON OPERATION OF TAX CUT AND ACCELERATED DEPRECIATION ALLOWANCES. VOTE OF 60 MPS WOULD BE REQUIRED AT THAT TIME TO INITIATE ANY ACTION THAT COULD LEAD TO ALTERATION OF TAX MEASURES.

2. MEASURES ADVOCATED IN FEBRUARY 1973 BUDGET AFFECTING PERSONAL TAX RATES (REB B) I. E. BASIC FEDERAL TAX CUT OF 5 PERCENT, AVERAGE INCREASE IN EXEMPTIONS OF 5 PERCENT AND " INFLATION INDEXING" OF TAX RATES, WERE UNCHANGED FROM ORIGINAL PROPOSAL.

3. IN LIVELY INITIAL REACTION IN HOUSE, OPPOSITION LEADER STANFIELD REPROACHED TURNER FOR LONG DELAY IN INTRODUCTION OF MEASURES BUT ADDED THAT HE WAS PLEASED THAT MINFIN HAD ACCEPTED PC PROPOSAL THAT TAX CUTS NOT BE ADOPTED AS PERMANENT MEASURE. HE INDICATED THAT 3 MONTH EXTENSION OF HIS DECEMBER 31, 1973, DEADLINE FOR EXPIRATION OF CORPORATE MEASURES MIGHT BE ACCEPTABLE AND THAT PC'S WOULD EXAMINE PROVISIONS OF DRAFT LEGISLATION DESCRIBING MECHANISM OF REVIEW PROCESS BEFORE TAKING POSITION.

4. NDP LEADER LEWIS WAS MOST OUTSPOKEN IN CONDEMNATION OF WAHT HE CALLED GOC TRICKERY IN ATTEMPTING TO PACKAGE HONEY WITH POISON TO ATTRACT SUPPORT FOR BILL. HE SAID GOC SHOULD INTRODUCE PROPOSALS AS TWO SEPARATE BILLS TO ENABLE SPECIFIEC OPPOSITION TO " CORPORATE RIP- OFF" EMBODIED IN TAX CUTS WHICH HE SAID WERE " UNJUSTIFIED ECONOMICALLY AND IMMORAL SOCIALLY." HE CONCLUDED THAT NDP WAS " TOUGH ENOUGH" TO OPPOSE CORPORATE MEASURES EVEN IF IT NECESSITATED VOTING AGAINST ATTRACTIVE PERSONAL TAX CUTS.

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